

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input type="checkbox"/> City <input type="checkbox"/> Twp <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Unit Name Kalamazoo Public Library	County Kalamazoo
Fiscal Year End June 30, 2006	Opinion Date September 7, 2006	Date Audit Report Submitted to State	

We affirm that:

We are certified public accountants licensed to practice in Michigan.

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

YES
NO

Check each applicable box below. (See instructions for further detail.)

1. ☒ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
2. ☒ ☐ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
3. ☐ ☒ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
4. ☒ ☐ The local unit has adopted a budget for all required funds.
5. ☒ ☐ A public hearing on the budget was held in accordance with State statute.
6. ☒ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
7. ☒ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
8. ☒ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
9. ☒ ☐ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
10. ☒ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
11. ☒ ☐ The local unit is free of repeated comments from previous years.
12. ☒ ☐ The audit opinion is UNQUALIFIED.
13. ☒ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
14. ☐ ☒ The board or council approves all invoices prior to payment as required by charter or statute.
15. ☒ ☐ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

We have enclosed the following:	Enclosed	Not Required (enter a brief justification)	
Financial Statements	<input checked="" type="checkbox"/>		
The letter of Comments and Recommendations	<input checked="" type="checkbox"/>		
Other (Describe)	<input type="checkbox"/>		
Certified Public Accountant (Firm Name) Plante & Moran, PLLC		Telephone Number 269-567-4500	
Street Address 750 Trade Centre Way, Suite 300		City Portage	State MI
Zip 49002		License Number 1101013906	
Authorizing CPA Signature <i>Thomas H. Cole III</i> CPA		Printed Name Thomas H. Cole, CPA	

Kalamazoo Public Library

**Financial Report
with Supplemental Information
June 30, 2006**

Kalamazoo Public Library

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Independent Auditor's Report

To the Board of Trustees
Kalamazoo Public Library

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Kalamazoo Public Library for the year ended June 30, 2006, which collectively comprise the Library's basic financial statements as listed in the table of contents. The financial statements are the responsibility of the Library's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Kalamazoo Public Library as of June 30, 2006 and the respective changes in financial position for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Library's basic financial statements. The required supplemental information, as identified in the table of contents, is not a required part of the basic financial statements but is supplemental information required by the Governmental Accounting Standards Board. The required supplemental information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

The management's discussion and analysis included in the table of contents is presented for the purpose of additional analysis and is not a required part of the basic financial statements of Kalamazoo Public Library. We did not examine this data and, accordingly, do not express an opinion thereon.

Plante & Moran, PLLC

September 7, 2006

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Kalamazoo Public Library

Management's Discussion and Analysis

As the management and board of Kalamazoo Public Library, we offer readers of Kalamazoo Public Library's financial statements this narrative overview and analysis of the financial activities of Kalamazoo Public Library for the fiscal year ended June 30, 2006.

Financial Highlights

- The assets of Kalamazoo Public Library exceeded its liabilities at the close of the most recent fiscal year by \$11,970,992. Of this amount, \$4,314,520 may be used to meet Kalamazoo Public Library's ongoing obligations to citizens and creditors.
- At the close of the current fiscal year, Kalamazoo Public Library's governmental funds reported combined ending fund balances of \$6,418,570, an increase of \$764,023 in comparison with the prior year. Approximately 18 percent of the total amount, \$1,155,548, is undesignated and unreserved.
- At the end of the current fiscal year, unreserved and undesignated fund balance for the General Fund was \$822,869, or 9 percent of total General Fund expenditures.
- Kalamazoo Public Library's long-term debt decreased by \$1,130,000 (9.7 percent) during the current fiscal year, attributed to the payment of bond principal. No new debt was issued during the current year.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to Kalamazoo Public Library's basic financial statements. Kalamazoo Public Library's basic financial statements are comprised of three components: (1) government-wide financial statements, (2) fund financial statements, and (3) notes to the financial statements. This report also contains other supplemental information, in addition to the basic financial statements themselves.

Government-wide Financial Statements - The government-wide financial statements are designed to provide readers with a broad overview of Kalamazoo Public Library's finances, in a manner similar to a private-sector business.

The statement of net assets presents information on all of Kalamazoo Public Library's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether Kalamazoo Public Library's financial position is improving or deteriorating.

The statement of activities presents information showing how Kalamazoo Public Library's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused vacation leave).

Kalamazoo Public Library

Management's Discussion and Analysis (Continued)

Both of the government-wide financial statements distinguish functions of Kalamazoo Public Library that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges. The governmental activities of Kalamazoo Public Library include a single program function, culture and recreation, and one major fund, the Endowment Fund reported separately from the general Library operations.

Fund Financial Statements - A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. Kalamazoo Public Library, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of Kalamazoo Public Library can be classified as governmental funds.

Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

Kalamazoo Public Library maintains eight individual governmental funds: the General, Debt Service, Capital Improvement, Endowment, Agency, Ready to Read, Reading Together, and Gift and Memorial funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the General Fund and Endowment Fund, which are considered to be major funds. Data from the other governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these nonmajor governmental funds is provided in the form of combining statements elsewhere in this report.

Kalamazoo Public Library adopts an annual appropriated budget for its General Fund and Special Revenue Funds. A budgetary comparison statement has been provided for the General Fund to demonstrate compliance with the budget, which is included in the supplemental information.

Notes to the Financial Statements - The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

Other Information - The combining statements referred to earlier in connection with nonmajor governmental funds are presented immediately following the required supplemental information on pensions.

Kalamazoo Public Library

Management's Discussion and Analysis (Continued)

Government-wide Financial Analysis

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of Kalamazoo Public Library, assets exceeded liabilities by \$11,970,992 at the close of the most recent fiscal year.

By far the most significant portion of Kalamazoo Public Library's net assets (48 percent) reflects its investment in capital assets (e.g., land, buildings, machinery, and equipment), less any related debt used to acquire those assets that is still outstanding. Kalamazoo Public Library used these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although Kalamazoo Public Library's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

An additional portion of Kalamazoo Public Library's net assets (15.8 percent) represents resources that are subject to external restrictions on how they may be used or have been reserved for specific purposes by the board. The remaining balance of unreserved, undesignated (\$4,314,520) may be used to meet Kalamazoo Public Library's ongoing obligations to citizens and creditors.

At the end of the current fiscal year, Kalamazoo Public Library is able to report positive balances in all three categories of net assets, both for the government as a whole, as well as for its separate major fund groupings. The same situation held true for the prior fiscal year.

Kalamazoo Public Library Net Assets

	<u>2005-2006</u>	<u>2004-2005</u>
Current and Other Assets	\$ 6,940,833	\$ 6,143,198
Capital Assets	<u>14,783,365</u>	<u>15,195,407</u>
Total Assets	<u>21,724,198</u>	<u>21,338,605</u>
Long-term Debt	8,005,850	9,203,846
Other Liabilities	<u>1,747,356</u>	<u>1,666,823</u>
Total Liabilities	<u>9,753,206</u>	<u>10,870,669</u>
Net Assets:		
Invested in Capital Assets -		
Net of related debt	5,763,365	5,045,408
Restricted for nonexpendable endowment	1,652,682	1,406,157
Restricted for debt service	240,425	258,419
Unrestricted	<u>4,314,520</u>	<u>3,757,952</u>
Total Net Assets	<u>\$11,970,992</u>	<u>\$10,467,936</u>

Kalamazoo Public Library's net assets increased by \$1,503,056 during the current fiscal year as discussed below.

Kalamazoo Public Library

Management's Discussion and Analysis (Continued)

Governmental Activities - Governmental activities increased Kalamazoo Public Library's net assets by \$1,503,056, accounting for all of the total increase in the net assets of Kalamazoo Public Library. Key elements of this increase are attributable to the growth of the Library's taxable value base, the receipt of a bequest from the estate of Eleanor Mary Mason adding to the principal of the endowment, and continuation of planned capital investment while meeting the bond payment schedule.

For the most part, increases in expenses closely paralleled inflation and growth in the demand for services. Some noteworthy exceptions, however, are the cost growth for medical and dental benefits increasing from 12 percent to 15 percent from the prior year, and the increase by nearly 10 percent increase in contributions made to the Michigan Public School Employees' Retirement System. Although Kalamazoo Public Library's employee compensation is based upon total compensation including benefits, the cost of medical, dental, and retirement benefits grew beyond the increase generated by taxable value growth over the same period.

Financial Analysis of Kalamazoo Public Library's Funds

As noted earlier, Kalamazoo Public Library used fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental Funds - The focus of Kalamazoo Public Library's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing Kalamazoo Public Library's financing requirements. In particular, unreserved fund balance may serve as a useful measure of Kalamazoo Public Library's net resources available for spending at the end of the fiscal year.

As of the end of the current fiscal year, Kalamazoo Public Library's governmental funds reported combined ending fund balances of \$6,418,570, an increase of \$764,023 in comparison with the prior year. Approximately 14 percent of this total amount, \$910,258, constitutes unreserved, undesignated fund balance, which is available for spending at Kalamazoo Public Library's discretion. The remainder of fund balance is designated to indicate that it is not available for new spending because it has already been committed (1) to pay debt service (\$240,425), (2) to support cash flow needs for the first half of the following fiscal year (\$2,550,000), (3) to pay the potential liability for the repayment of taxes paid and in dispute (\$115,000), (4) to pay for future capital projects (\$509,535), (5) designated as a permanent endowment fund for Kalamazoo Public Library (\$1,635,599) with a Children's Endowment (\$17,083), or (6) for a variety of commitments for materials and services as of June 30, 2006 (\$195,379).

The General Fund is the chief operating fund of Kalamazoo Public Library. At the end of the current fiscal year, unreserved, undesignated fund balance of the General Fund totaled \$1,068,159 and the total fund balance was \$4,328,168. Unreserved fund balance represents 12 percent of total General Fund expenditures.

The fund balance of Kalamazoo Public Library's General Fund increased by \$478,886 during the current fiscal year. The Library adopted a conservative approach to both revenue and expenditure budgeting in fiscal year 2005-2006, reflecting the ongoing uncertainty in the national, state, and local economies. An increase in fund balance was created by the realization of additional investment and tax revenue at the same time the Library experienced some cost saving through energy-saving initiatives and the realignment of staff positions through retirements.

Kalamazoo Public Library

Management's Discussion and Analysis (Continued)

General Fund Budgetary Highlights

The Library's General Fund budget for the fiscal year ended June 30, 2006 included the incorporation of several programs previously funded through gifts and grants. These programs included Prime Time Family Reading, Ready to Read, and Reading Together. An increased emphasis to improve service delivery for reader advisory services and Spanish outreach was achieved through the shifting of several staff positions. Stable tax growth and the continuation of employee total compensation programs also allowed increased reserves for capital improvement projects. Differences between the original budget and the final amended budget were an increase of \$65,996 in revenue, reflecting changes in taxable value, and an anticipated increase in realized investment income. Expenditures were projected to decrease \$6,500 in the final amended budget, reflecting anticipated savings due to temporary staff vacancies.

Capital Asset and Debt Administration

Capital Assets - Kalamazoo Public Library's investment in capital assets for its governmental and business-type activities as of June 30, 2006 amounts to \$14,783,365. This investment in capital assets includes land, buildings, furniture and equipment, computer systems, and Library materials. The total decrease in Kalamazoo Public Library's investment in capital assets for the current fiscal year was 2.7 percent.

Major capital asset events during the current fiscal year included the following: the purchase of a new Library-wide telephone system, the investment in energy savings HVAC improvements, public and staff photocopiers, the installation of WIFI internet connectivity at several sites, and the replacement of PCs and printers.

Details of Kalamazoo Public Library's capital assets are continued in the notes to the financial statements.

Long-term Debt - At the end of the current fiscal year, Kalamazoo Public Library had total bonded and installment debt outstanding of \$9,020,000, the entirety of which is backed by the full faith and credit of the government.

Additional information on Kalamazoo Public Library's long-term debt can be found in the notes to the financial statements.

Economic Factors and Next Year's Budgets and Rates

Kalamazoo Public Library's primary revenue source is local property taxes. It accounts for approximately 90 percent of all Library revenues. The Library's voted millage is applied to all areas within the Kalamazoo Public School District, the Mattawan and Otsego School Districts within Oshtemo Township, the Portage and Comstock School Districts within the city of Kalamazoo, and the Comstock School District within Kalamazoo Township.

In 1990, voters approved a tax levy of 2.88 mills that expires in 2010. In 1995, voters approved an additional levy of 1.12 mills that expires in 2015. Subsequent to the passage of these tax levies, the Library's tax rates have been rolled back to 2.7782 and 1.1801, respectively, totaling 3.9583 mills through the application of the Headlee amendment.

Kalamazoo Public Library

Management's Discussion and Analysis (Continued)

During fiscal year 2005-2006, Kalamazoo Public Library's total property tax revenue increased \$455,679 (4.6 percent), including delinquent receipts over the previous year. The increase in property tax receipts, realignment of single business tax receipts, and the increase in interest rates available for the investment of excess operational cash balances resulted in an increase in total General Fund revenue of \$614,715 over fiscal year 2005-2006. The Library successfully incorporated several gift-funded programs into the General Fund during the year, including Prime Time Family Reading and Reading Together, completed cost saving and energy projects which saw reductions in monthly energy costs by the end of the fiscal year, and saw the retirements of several long-time staff members during the fiscal year and an increased emphasis of staffing to improve service delivery for readers' advisory services and Spanish outreach. The final result of these efforts was a \$478,886 increase in General Fund balance over the prior year.

The economic outlook for the fiscal year beginning July 1, 2006 is again stronger than the previous one with a projected growth in taxable value of 5.59 percent. And, while it is not yet possible to measure the effects, the overall economic future of Kalamazoo has become brighter with the announcement of the Kalamazoo Promise, a program initiated by a group of benefactors interested in the economic health and quality of life in Kalamazoo. This program guarantees graduates of the Kalamazoo Public School District up to 100 percent free tuition for four years of tuition at any Michigan college or university. It is anticipated that an indirect effect of the Kalamazoo Promise will be a strengthening of the Kalamazoo tax base through Kalamazoo housing market demand.

The Library looks forward into the next fiscal year, anticipating the need to continue to invest in building upgrades and maintenance, particularly public areas experiencing the highest traffic patterns. Plans are underway for a multi-year upgrade of the central Library's first floor, replacement of floor coverings at all branches, and an upgrade in computer equipment over the next several years. It is anticipated that a portion of the unreserved increase in General Fund balance as a result of fiscal year 2005-2006 will be invested in the upgrade and maintenance of the Library's capital assets. Also, anticipating the expiration of the Library's original millage in 2010, plans are being made for a renewal vote in 2009.

Requests for Information

This financial report is designed to provide a general overview of Kalamazoo Public Library's finances for all those with an interest. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Head of Finance and Budget, Kalamazoo Public Library, 315 S. Rose St., Kalamazoo, MI 49007

Kalamazoo Public Library

Statement of Net Assets June 30, 2006

Assets

Cash	\$ 3,381,479
Investments	2,965,299
Accounts receivable:	
Taxes	73,919
Other	128,558
Due from other government units	81,340
Other assets	245,290
Beneficial interest in assets held by foundation	64,948
Nondepreciable assets - Land	133,173
Depreciable assets:	
Buildings	15,828,755
Furniture, equipment, and automation	3,357,056
Materials	3,600,608
Less accumulated depreciation	(8,136,227)
Total depreciable assets	<u>14,650,192</u>
Total capital assets	<u>14,783,365</u>
Total assets	21,724,198

Liabilities

Current liabilities:	
Accounts payable	169,727
Salaries and wages payable	75,151
Retirement payable	13,321
Compensated absences	199,170
Interest payable	75,068
Noncurrent liabilities:	
Retirement liability	200,769
Contracts and bonds payable within one year	1,185,000
Contracts and bonds due in more than one year	7,835,000
Total liabilities	<u>\$ 9,753,206</u>

Net Assets

Invested in capital assets - Net of related debt	5,763,365
Restricted for children's endowment	17,083
Restricted for endowment	1,635,599
Restricted for debt service	240,425
Unreserved	4,314,520
Total net assets	<u><u>\$ 11,970,992</u></u>

The Notes to Financial Statements
are an Integral Part of this Statement.

Kalamazoo Public Library

Statement of Activities Year Ended June 30, 2006

Program Expenses

Recreational and cultural - Library:

Salaries	\$ 4,223,512
Benefits	1,874,185
Materials	254,595
Utilities	215,042
Supplies	157,990
Facilities management	220,094
Other	1,416,282
Debt service interest	492,741
Depreciation expense	<u>1,325,090</u>

Total program expenses 10,179,531

Program Revenue

Charges for services	143,926
Operating grants and contributions	<u>227,057</u>

Total program revenues 370,983

Net program expenses 9,808,548

General Revenue

Property taxes	10,196,697
State grants	430,445
District court penal fines	279,955
Investment return	233,090
Other	180,000
Net loss on sale/disposal of assets	<u>(8,583)</u>

Total general revenue 11,311,604

Change in Net Assets 1,503,056

Net Assets - Beginning of year 10,467,936

Net Assets - End of year \$ 11,970,992

The Notes to Financial Statements
are an Integral Part of this Statement.

Kalamazoo Public Library

Balance Sheet - Governmental Funds June 30, 2006

	<u>General</u>	<u>Debt Service</u>	<u>Permanent Nonexpendable Trust</u>	<u>Other Governmental Funds</u>	<u>Totals</u>
Assets					
Cash	\$ 2,275,273	\$ 240,425	\$ 296,618	\$ 569,163	\$ 3,381,479
Investments	1,523,788	-	1,356,064	85,447	2,965,299
Accounts receivable	128,558	-	-	-	128,558
Taxes receivable (net of allowances)	73,919	-	-	-	73,919
Due from other funds	-	-	-	3,210	3,210
Due from other governmental units	81,340	-	-	-	81,340
Other assets	245,290	-	-	-	245,290
Beneficial interest in assets held by foundation	-	-	-	64,948	64,948
Total assets	<u>4,328,168</u>	<u>240,425</u>	<u>1,652,682</u>	<u>722,768</u>	<u>6,944,043</u>
Liabilities					
Accounts payable	258,006	-	-	193	258,199
Accrued vacation	199,170	-	-	-	199,170
Due to other funds	3,210	-	-	-	3,210
Deferred revenue	64,894	-	-	-	64,894
Total liabilities	<u>525,280</u>	<u>-</u>	<u>-</u>	<u>193</u>	<u>525,473</u>
Fund Balance					
Reserved for:					
Encumbrances	69,729	-	-	-	69,729
Endowment	-	-	1,652,682	-	1,652,682
Prepays	245,290	-	-	-	245,290
Unreserved and designated reported in:					
General Fund	2,665,000	-	-	-	2,665,000
Debt Service	-	240,425	-	-	240,425
Capital Projects	-	-	-	509,535	509,535
Special Revenue Funds	-	-	-	125,651	125,651
Unreserved and undesignated reported in:					
General Fund	822,869	-	-	-	822,869
Special Revenue Funds	-	-	-	87,389	87,389
Total fund balance	<u>3,802,888</u>	<u>240,425</u>	<u>1,652,682</u>	<u>722,575</u>	6,418,570
Total liabilities and fund balance	<u>\$ 4,328,168</u>	<u>\$ 240,425</u>	<u>\$ 1,652,682</u>	<u>\$ 722,768</u>	

Amounts Reported for Governmental Activities in the Statement of Net Assets are Different Because:

Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds	14,783,365
Other long-term revenues, not available in the current period, are deferred in the funds	64,894
Accrued interest payable does not require recognition in the governmental funds	(75,068)
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds	(9,220,769)
Net assets of governmental funds	<u>\$ 11,970,992</u>

The Notes to Financial Statements
are an Integral Part of this Statement.

Kalamazoo Public Library

**Combined Statement of Revenues, Expenditures and
Changes in Fund Balance - All Governmental Fund Types
Year Ended June 30, 2006**

	General	Debt Service	Endowment	Other Governmental funds	Totals
Revenues					
Property taxes	\$ 10,196,697	\$ -	\$ -	\$ -	\$ 10,196,697
State grants	430,445	-	-	-	430,445
Charges for services	143,926	-	-	-	143,926
District court penal fines	279,955	-	-	-	279,955
Investment return	125,103	14,459	76,141	17,387	233,090
Other	144,234	-	180,000	76,336	400,570
Total revenues	11,320,360	14,459	256,141	93,723	11,684,683
Expenditures					
Recreational and cultural:					
Salaries	4,206,589	-	-	-	4,206,589
Benefits	1,874,185	-	-	-	1,874,185
Materials	896,092	-	-	44,884	940,976
Utilities	215,042	-	-	-	215,042
Supplies	157,990	-	-	-	157,990
Facilities management	143,713	-	-	76,381	220,094
Other	1,365,031	-	9,616	63,434	1,438,081
Capital outlay	13,610	-	-	221,640	235,250
Debt service:					
Principal	-	1,130,000	-	-	1,130,000
Interest	-	502,453	-	-	502,453
Total expenditures	8,872,252	1,632,453	9,616	406,339	10,920,660
Excess (Deficiency) of Revenues Over Expenditures	2,448,108	(1,617,994)	246,525	(312,616)	764,023
Other Financing Sources (Uses)					
Operating transfers in	50,778	1,600,000	-	420,000	2,070,778
Operating transfers out	(2,020,000)	-	-	(50,778)	(2,070,778)
Total other financing sources (uses)	(1,969,222)	1,600,000	-	369,222	-
Net Change In Fund Balance	\$ 478,886	\$ (17,994)	\$ 246,525	\$ 56,606	\$ 764,023
Fund Balance - Beginning of year	3,324,002	258,419	1,406,157	665,969	5,654,547
Fund Balance - End of year	\$ 3,802,888	\$ 240,425	\$ 1,652,682	\$ 722,575	\$ 6,418,570
Net change in Fund Balances - Total Governmental Funds					\$ 764,023

Amounts reported for governmental activities in the statement of activities are difference because:

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the costs of those assets are allocated over their estimated useful lives as depreciation expense:

Depreciation	(1,325,090)
Additions	954,631
Net effect of disposals	(41,583)

Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds, net effect of change in deferred revenue

6,487

Change in accrued interest on bonds and assessments payable not reported in the governmental fund statements

9,712

Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets

1,130,000

Reduction in claims and assessments payable

21,799

Increase in the amount of retirement payable balances increases the amount of salary expense during the year

(16,923)

Change in Net Assets of Governmental Activities

\$ 1,503,056

The Notes to Financial Statements
are an Integral Part of this Statement.

Kalamazoo Public Library

Notes to Financial Statements

NOTE I - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of Kalamazoo Public Library, Michigan (the "Library") conform to U.S. generally accepted accounting principles (hereinafter referred to as generally accepted accounting principles) as applicable to governmental units. The following is a summary of the significant accounting policies.

a) Reporting entity:

The accompanying basic financial statements have been prepared in accordance with criteria established by the Governmental Accounting Standards Board for determining the various governmental organizations to be included in the reporting entity. These criteria include oversight responsibility, scope of public service, and special financing relationships. These financial statements contain only the activity of Kalamazoo Public Library, a district library pursuant to 1989 PA 24, effective April 2, 1990. The participating municipalities include the City of Kalamazoo, Kalamazoo Township, Oshtemo Township, and a portion of Texas Township. Based on the significance of any operational or financial relationships with the Library, there are no component units to be included in these financial statements.

The Library's basic financial statements include both government-wide (reporting the Library as a whole) and fund financial statements (reporting the Library's major funds).

b) Government-wide and fund financial statements:

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the Library. The effect of all interfund activity has been removed from these statements. Governmental activities, normally supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include: (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment, and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenue.

Separate financial statements are provided for governmental funds. Major individual governmental funds are reported as separate columns in the fund financial statements.

c) Measurement focus, basis of accounting, and financial statement presentation:

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the nonexpendable trust fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available if they are collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government generally considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, expenditures relating to compensated absences, and claims and judgments are recorded only when payment is due.

State grants, licenses and permits, charges for services, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable only when cash is received by the government.

The government reports the following major governmental funds:

- The General Fund is the government's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.
- The Debt Service Fund accounts for the resources accumulated and payments made for principal and interest on long-term general obligation debt of governmental funds.
- The Permanent Fund - The Nonexpendable Trust Fund accounts for resources legally held in trust, as an endowment, that are legally restricted to the extent that only earnings, and not principal, may be used to support the Library's programs.

Private-sector standards of accounting issued prior to December 1, 1989 are generally followed in the government-wide financial statements to the extent that those standards do not conflict with the standards of the Governmental Accounting Standards Board.

Amounts reported as program revenue include: (1) charges to customers or applicants for goods, services, or privileges provided and (2) operating grants and contributions. Internally dedicated resources are reported as general revenue rather than as program revenue. Likewise, general revenue includes all taxes.

d) Assets, liabilities, and net assets or equity:

i) Bank deposits and investments - Cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with a maturity period of three months or less when acquired. Investments are stated at fair value. Pooled investment income is proportionately allocated to all funds.

NOTE I - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

ii) *Receivables and payables* - In general, outstanding balances between funds are reported as “due to/from other funds.” Any residual balances outstanding between the governmental activities and the business-type activities are reported in the government-wide financial statements as “internal balances.”

Property tax receivables are presented net of an allowance for uncollectibles accounts.

iii) *Other assets* - Certain payments to vendors reflect costs applicable to future fiscal years and are recorded as prepaid items in both government-wide and fund financial statements.

iv) *Capital assets* - Capital assets, which include property, plant, and equipment, are reported as prepaid items in the government-wide financial statements. Capital assets are defined by the government as assets with an initial individual cost of more than \$1,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

Capital assets are depreciated using the straight-line method over the following useful lives:

Buildings and improvements	10 - 50 years
Equipment	3 - 20 years
Materials	5 - 7 years

v) *Compensated absences (vacation and sick leave)* - Vacation leave is accrued as the benefits are earned by the employees and is vested by the employee up to a maximum balance determined by longevity and employee class. At termination of employment, employees are compensated for the balance accrued. All vacation pay is accrued when incurred in the government-wide financial statements. A liability for these amounts is reported in governmental funds only if they have matured, for example, as a result of employee resignations and retirements. Sick leave benefits accumulate, but do not vest and are not payable upon termination of employment. No liability is reported for unpaid accumulated sick leave.

vi) *Retirement benefits* - The Library provides employees a benefit to accumulate hours based on contract and years of service to be paid out at retirement. The earned benefit is accrued as a long-term liability in the government-wide financial statements.

vii) *Fund equity* - In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

viii) *Property Taxes* - Properties are assessed as of December 31. The related property taxes are billed and become a lien on December 1 of the following year. These taxes are due on February 15 with the final collection date of February 28 before they are added to the county tax rolls.

Kalamazoo Public Library

Notes to Financial Statements

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Property taxes are levied on each December 1 on the taxable valuation of property as of the preceding December 31. Taxes are considered delinquent on March 1 of the following year, at which time penalties and interest are assessed.

The Library's 2005 tax is levied and collectible on December 1, 2005 and is recognized as revenue in the year ended June 30, 2006 when the proceeds of the levy are budgeted and available for the financing of operations.

The 2005 taxable valuation of the participating municipalities totaled \$2,517 million before adjustments, on which taxes levied consisted of 3.9583 for operating purposes. This resulted in approximately \$10.1 million for General Fund operations. This amount was reported in the General Fund as tax revenue.

NOTE 2 - DEPOSITS AND INVESTMENTS

Michigan Compiled Laws Section 129.91 (Public Act 20 of 1943, as amended) authorizes local governmental units to make deposits and invest in the accounts of federally insured banks, credit unions, and savings and loan associations that have offices in Michigan. The local unit is allowed to invest in bonds, securities, and other direct obligations of the United States or any agency or instrumentality of the United States; repurchase agreements; bankers' acceptances of United States banks; commercial paper rated within the two highest classifications, which matures not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions, which are rated as investment grade; and mutual funds composed of investment vehicles that are legal for direct investment by local units of government in Michigan.

The Library also maintains an endowment investment policy which allows investments held within the endowment to be invested in all investment vehicles listed above and also allows for investments in securities traded on major U.S. exchanges.

DEPOSITS

Custodial Credit Risk of Bank Deposits:

Custodial credit risk is the risk that in the event of a bank failure, the Library's deposits may not be returned to it. The Library does not have a deposit policy for custodial credit risk. At yearend, the Library had \$3,374,475 of bank deposits (certificates of deposit, checking and savings accounts) that were uninsured and uncollateralized. The Library believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all deposits. As a result, the Library evaluates each financial institution with which it deposits funds and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

INVESTMENTS

The investment policy adopted by the board is in accordance with Public Act 196 of 1997. The Library's cash and investments are subject to several types of risk, which are examined in more detail below:

Kalamazoo Public Library

Notes to Financial Statements

NOTE 2 - DEPOSITS AND INVESTMENTS (Continued)

Interest Rate Risk

Interest rate risk is the risk that the value of investments will decrease as a result of a rise in interest rates. The Library's investment policies do not restrict investment maturities, except for within the investment policy relating to the operating funds, commercial paper which can only be purchased with a 270-day maturity.

	Fair Market Value	Less than One Year	1-5 years
Corporate bonds	\$ 169,553	\$ 74,125	\$ 95,428
Government bonds	<u>998,930</u>	<u>806,641</u>	<u>192,289</u>
	<u>\$1,168,483</u>	<u>\$ 880,766</u>	<u>\$ 287,717</u>

Credit Risk

State law limits investments in commercial paper to the top two ratings issued by nationally recognized statistical rating organizations. The Library's operating investment policy does not further limit its investment choices. The Library's endowment investment policy limits the purchases to a credit rating of A or better at the time of purchase by Moody's or Standard & Poor's.

	Fair Market Value	Credit Risk Rating
Corporate bonds	\$ 144,760	A Standard & Poor's
Corporate bonds	24,793	AA- Standard & Poor's
Government bonds	<u>998,930</u>	AAA Standard & Poor's
	<u>\$ 1,168,483</u>	

NOTE 3 - MONIES HELD BY FOUNDATION

Amounts shown as beneficial interest in assets, held by foundation represent monies placed with the Kalamazoo Community Foundation (the "foundation") by the Library, specifying itself as the beneficiary. The Library and the Foundation are unrelated entities. The Library has the right, at any time, to request from the Foundation all or a portion of the current balance of such monies held by the Foundation. The Foundation, as custodian of such funds, continues to report the funds as assets of the Foundation, with a corresponding liability, agency non-endowed funds. The Library reports this asset at the present value of future payments expected to be received. During the year ended June 30, 2006, a \$4,000 grant was awarded to Kalamazoo Public Library for the Kalamazoo Gazette Catch-up Indexing project from these funds. The balance of these funds as of June 30, 2006 was \$64,948.

Additionally, funds for the benefit of the Library have been established at the Foundation for the receipt of gifts from donors other than the Library. The terms of these funds allow annual distributions of gifts and/or income thereon, subject to the Foundation's unilateral variance power to redirect distributions. No asset is recorded for these funds, other than the annual grant (if any). The balance in these funds as of June 30, 2006 was \$49,153.

Kalamazoo Public Library

Notes to Financial Statements

NOTE 4 - ENDOWMENT

The assets restricted for endowment consist of contributions of \$1,182,003 and investment return of \$470,679 totaling \$1,652,682, none of which is available for expenditure. Beginning July 1, 2007, up to 50 percent of the earned income or capital growth of the fund may be designated for current project expenditures or reserved for future project expenditures, which will be determined by the Endowment Allocation Committee. The State of Michigan has not implemented law that limits the ability to spend net appreciation. During the year ended June 30, 2006, the initial distribution of \$180,000 from the estate of Eleanor M. Mason was added to the principal of the endowment. Additional distributions totaling \$17,854 were also deposited to the endowment after the close of the fiscal year.

NOTE 5 - RECEIVABLES

All receivables as of yearend for the government's individual major and nonmajor funds are current. Taxes receivable are net of allowances for doubtful accounts of \$228,931.

NOTE 6 - CAPITAL ASSETS

Capital asset activity of the Library for the current year was as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Capital assets not being depreciated - Land	\$ <u>133,173</u>	\$ <u> </u>	\$ <u> </u>	\$ <u>133,173</u>
Capital assets not being depreciated:				
Buildings	15,812,619	16,136	-	15,828,755
Furniture, equipment and automation	3,428,649	252,114	323,708	3,357,055
Materials	<u>3,549,570</u>	<u>686,380</u>	<u>635,342</u>	<u>3,600,608</u>
Subtotal	<u>22,790,838</u>	<u>954,630</u>	<u>959,050</u>	<u>22,786,418</u>
Less accumulated depreciation for:				
Buildings	3,077,032	396,122	-	3,473,154
Furniture, fixtures and equipment	2,548,510	339,745	282,125	2,606,130
Materials	<u>2,103,062</u>	<u>589,223</u>	<u>635,342</u>	<u>2,056,943</u>
Subtotal	<u>7,728,604</u>	<u>1,325,090</u>	<u>917,467</u>	<u>8,136,227</u>
Net capital assets being depreciated	<u>15,062,234</u>	<u>(370,460)</u>	<u>41,583</u>	<u>14,650,191</u>
Total capital assets - Net of depreciation	<u>\$15,195,407</u>	<u>\$(370,460)</u>	<u>\$ 41,583</u>	<u>\$14,783,364</u>

Kalamazoo Public Library

Notes to Financial Statements

NOTE 6 - CAPITAL ASSETS (Continued)

Depreciation expense was \$1,325,090 for the year ended June 30, 2006. During the year a book-mobile was traded-in for a value of \$33,000.

NOTE 7 - LONG-TERM OBLIGATIONS

Long-term debt at June 30, 2006, is comprised of the following individual issues:

\$13,300,000 1996 Library facility limited tax general obligation bonds, due in annual installments of \$425,000 to \$1,000,000, beginning May 1, 1999 through May 1, 2014; interest payable at 3.9 percent to 5.4 percent	\$ 8,000,000
\$1,250,000 2002 Library facility limited tax general obligation bonds, due in annual installments of \$25,000 to \$300,000, beginning May 1, 2003 through May 1, 2010; interest payable at 3 percent to 4 percent	<u>1,020,000</u>
Total	9,020,000
Less current maturities	<u>1,185,000</u>
Total long-term debt	<u>\$ 7,835,000</u>

Long-term obligation activity for the year ended June 30, 2006 was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Amounts Due Within One Year</u>
1996 limited tax bonds	\$ 9,000,000	\$ -	\$ (1,000,000)	\$ 8,000,000	\$1,000,000
2002 limited tax bonds	<u>1,150,000</u>	<u>-</u>	<u>(130,000)</u>	<u>1,020,000</u>	<u>185,000</u>
Total long-term debt	10,150,000	-	(1,130,000)	9,020,000	1,185,000
Claims payable	21,799	-	(21,799)	-	-
Retirement Liability	<u>183,845</u>	<u>19,613</u>	<u>(2,689)</u>	<u>200,769</u>	<u>29,919</u>
Total long-term obligations	<u>\$10,355,644</u>	<u>\$19,613</u>	<u>\$(1,154,488)</u>	<u>\$9,220,769</u>	<u>\$1,214,919</u>

Debt service requirements at June 30, 2006 were as follows:

	<u>Principal</u>	<u>Interest</u>
Years ending June 30:		
2007	\$1,185,000	\$450,408
2008	1,240,000	396,118
2009	1,295,000	338,357
2010	1,300,000	277,000
2011	1,000,000	214,000
2012-2015	<u>3,000,000</u>	<u>324,000</u>
Totals	<u>\$9,020,000</u>	<u>\$1,999,883</u>

Kalamazoo Public Library

Notes to Financial Statements

NOTE 8 - INTERFUND RECEIVABLES, PAYABLES, AND TRANSFERS

The composition of interfund balances is as follows:

<u>Fund</u>	<u>Interfund receivables</u>	<u>Fund</u>	<u>Interfund payables</u>
Capital Projects	<u>\$3,210</u>	General	<u>\$3,210</u>

A summary of interfund transfers for the year ended June 30, 2006, is as follows:

<u>Fund</u>	<u>Transfer in</u>	<u>Fund</u>	<u>Transfer out</u>
Debt service	\$1,600,000	General Fund	\$1,600,000
Other governmental funds	420,000	General Fund	420,000
General	<u>50,778</u>	Other governmental funds	<u>50,778</u>
Total	<u>\$2,070,778</u>	Total	<u>\$2,070,778</u>

In 2006, transfers totaling \$2,070,778 were used to finance debt requirements and capital asset acquisitions.

NOTE 9 - FUND EQUITY

Reserved/Designated fund equity:

General Fund:

Reserved for encumbrances	<u>\$ 69,729</u>
Designated for cash flow	\$ 2,550,000
Designated for Consumers Energy liability	<u>115,000</u>
	<u>\$ 2,665,000</u>
Nonexpendable Trust Fund -	
Reserved for endowment	<u>\$ 1,652,599</u>

NOTE 10 - DEFINED BENEFIT RETIREMENT PLANS

a) Available plans and covered employees:

Library employees who participated in the Michigan Public School Employees' Retirement System (MPSERS), a cost-sharing, multiple-employer public school employee defined benefit plan, while being employees of the School District, are allowed by statute to continue their participation in the MPSERS or to elect to participate in the Municipal Employees' Retirement System (MERS), an agent multiple-employer public employee defined benefit plan. New employees of the Library, as of April 2, 1990, can only participate in the MERS.

b) MPSERS:

Plan description:

MPSERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Article 30 of the Regulations of the State of Michigan assigns the authority to establish and amend benefit provisions to the MPSERS Board of Trustees. The MPSERS issues a publicly available financial report that includes financial statements and required supplementary information for MPSERS. That report may be obtained by writing to MPSERS, P.O. Box 30673, Lansing, Michigan 48909-8103 or by calling 1-800-381-5111.

Funding policy:

For the current fiscal year, the Library was required to contribute 16.34 percent of its annual covered payroll. The contribution requirements of the plan members are established, and may be amended, by the MPSERS board of trustees. The Library's contributions to the Plan for the years ended June 30, 2006, 2005, and 2004 were \$310,075, \$285,648, and \$264,085, respectively, equal to the required contributions for each year.

Postemployment Benefits:

Under the MPSERS Act, all retirees participating in the MPSERS pension plan have the option of continuing health, dental, and vision coverages. Retirees having these coverages contribute an amount equivalent to the monthly cost for Part B Medicare and 10 percent of the monthly premium amount for health, dental, and vision coverages. Required contributions for post-employment health care benefits are included as part of the Library's total contribution to the MPSERS plan discussed above.

c) MERS:

Description of plan and plan assets:

The Library's defined benefit pension plan provides retirement, disability, and death benefits to plan members and beneficiaries. The Library's defined benefit pension plan is affiliated with the Municipal Employees' Retirement System of Michigan (MERS), an agent multiple-employer public employee retirement system that acts as a common investment and administrative agent for municipalities in Michigan. Public Act 220 of 1996 of the State of Michigan assigns the authority to establish and amend the benefit provisions to Kalamazoo Public Library. The MERS issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to Municipal Employees' Retirement System of Michigan, 1134 Municipal Way, Lansing, Michigan 48917, or by calling 1-800-767-6377.

Kalamazoo Public Library

Notes to Financial Statements

NOTE 10 - DEFINED BENEFIT RETIREMENT PLANS (Continued):

i) Funding policy:

MERS members are required to contribute an amount varying from 0.0 percent to 10.0 percent, depending upon which plan they fall under. The Library is required to contribute at an actuarially determined rate, which is currently 7.85 percent to 12.79 percent of annual covered payroll depending on the plan. The contribution requirements of plan members are established, and may be amended, by MERS.

For the year ended June 30, 2006, the Library's contributions were \$161,256, which were made in accordance with contribution requirements determined by an actuarial valuation of the plan as of December 31, 2002. The employer contribution rate has been determined using the entry age normal cost funding method. Under the entry age normal cost funding method, the total employer contribution is comprised of the normal cost. The employer normal cost is, for each employee, the level of percentage of payroll contribution (from entry age to retirement) required to accumulate sufficient assets at the member's retirement to pay for his or her projected benefit. Significant actuarial assumptions used included (a) 8.0 percent long-term net investment rate of return, (b) projected salary increases of 4.5 percent per year, and (c) 2.5 percent per year cost-of-living adjustments. The actuarial value of MERS assets was determined using techniques that smooth the effects of short-term volatility in the market value of investments over a five-year period.

ii) Trend information:

<i>Fiscal year Ended June 30</i>	<i>Annual pension Cost (APC)</i>	<i>Percentage of APC Contributed</i>	<i>Net Pension Obligation</i>
2003	\$120,782	100%	
2004	129,896	100%	
2005	146,524	100%	-
2006	161,256	100%	-

Actuarial valuation as of December 31:

	<u>2003</u>	<u>2004</u>	<u>2005</u>
Actuarial value of assets	\$ 1,010,296	\$ 1,230,793	\$ 1,530,320
Actuarial accrued liability (AAL) (entry age)	1,351,399	1,582,887	1,938,212
Unfunded (overfunded) AAL (UAAL)	341,103	352,094	407,892
Funded ratio	75%	78%	79%
Covered payroll	1,380,479	1,525,378	1,641,938
UAAL as a percentage of covered payroll	25%	23%	25%

Kalamazoo Public Library

Notes to Financial Statements

NOTE 11 - STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

The annual budget is prepared by the Library director and adopted by the Library board of trustees; subsequent amendments are approved by the Library board of trustees. Unexpended appropriations lapse at year end; encumbrances are not included as expenditures. During the current year, the budget was amended in a legally permissible manner.

The budget has been prepared in accordance with accounting principles generally accepted in the United States of America.

The budget statement (budgetary comparison schedule – General Fund) is presented on the same basis of accounting used in preparing the adopted budget.

The budget has been adopted on a functional level; expenditures at this level in excess of amounts budgeted are a violation of Michigan law. There were no significant budget overruns during the year ended June 30, 2006.

Required Supplemental Information

Kalamazoo Public Library

Budgetary Comparison Schedule - General Fund Year Ended June 30, 2006

	General			
	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance favorable (Unfavorable)</u>
Revenue				
Property taxes	\$ 10,122,117	\$ 10,149,359	\$ 10,196,697	\$ 47,338
State grants	378,259	378,259	430,445	52,186
Charges for services	137,500	141,500	143,926	2,426
District court penal fines	260,000	260,000	279,955	19,955
Investment return	52,500	80,000	125,103	45,103
Other	141,996	149,250	144,234	(5,016)
Total revenues	11,092,372	11,158,368	11,320,360	161,992
Expenditures - Recreational and cultural				
Salaries	4,327,519	4,325,784	4,206,589	119,195
Benefits	1,965,395	1,937,790	1,874,185	63,605
Materials	1,024,135	1,017,384	896,092	121,292
Utilities	221,856	228,256	215,042	13,214
Supplies	181,292	181,542	157,990	23,552
Facilities management	154,434	153,434	143,713	9,721
Other	1,520,331	1,544,272	1,365,031	179,241
Capital outlay	13,610	13,610	13,610	-
Total expenditures	9,408,572	9,402,072	8,872,252	529,820
Excess of Revenue over Expenditures	1,683,800	1,756,296	2,448,108	691,812
Other Financial Sources (Uses)				
Operating transfers in	35,198	50,778	50,778	-
Operating transfers out	(1,800,000)	(2,020,000)	(2,020,000)	-
Total other financial uses	(1,764,802)	(1,969,222)	(1,969,222)	-
Net Changes in Fund Balance	\$ (81,002)	\$ (212,926)	\$ 478,886	\$ 691,812
Fund Balance - Beginning of year	3,324,002	3,324,002	3,324,002	-
Fund Balance - End of year	<u>\$ 3,243,000</u>	<u>\$ 3,111,076</u>	<u>\$ 3,802,888</u>	<u>\$ 691,812</u>

Other Supplemental Information

Kalamazoo Public Library

Combining Balance Sheet - Nonmajor Governmental funds June 30, 2006

	<u>Special Revenue Funds</u>					Total Non-Major Governmental Funds
	<u>Agency Gifts</u>	<u>Reading Together</u>	<u>Ready to Read</u>	<u>Gifts & Memorials</u>	<u>Capital Projects</u>	
Assets						
Cash	\$ 63,536	\$ -	\$ 61,606	\$ 23,143	\$ 420,878	\$ 569,163
Investments	-	-	-	-	85,447	85,447
Beneficial interest in assets held by Foundation	64,948	-	-	-	-	64,948
Due from other funds	-	-	-	-	3,210	3,210
Total assets	<u>\$ 128,484</u>	<u>\$ -</u>	<u>\$ 61,606</u>	<u>\$ 23,143</u>	<u>\$ 509,535</u>	<u>\$ 722,768</u>
Liabilities - Accounts payable	\$ 193	\$ -	\$ -	\$ -	\$ -	\$ 193
Fund Balance						
Unreserved, designated	75,846	-	39,535	10,270	509,535	635,186
Unreserved, undesignated	52,445	-	22,071	12,873	-	87,389
Total fund balance	<u>128,291</u>	<u>-</u>	<u>61,606</u>	<u>23,143</u>	<u>509,535</u>	<u>722,575</u>
Total liabilities and fund balance	<u>\$ 128,484</u>	<u>\$ -</u>	<u>\$ 61,606</u>	<u>\$ 23,143</u>	<u>\$ 509,535</u>	<u>\$ 722,768</u>

Kalamazoo Public Library

**Combining Statement of Revenues, Expenditures, and Changes in Fund Balances - Nonmajor
Governmental Fund
Year Ended June 30, 2006**

	Special Revenue Funds					Total Non- major Governmental Funds
	<u>Agency Gifts</u>	<u>Reading Together</u>	<u>Ready to Read</u>	<u>Gifts and Memorials</u>	<u>Capital Projects</u>	
Revenues						
Investment return	\$ 2,929	\$ -	\$ 2,795	\$ 948	\$ 10,715	\$ 17,387
Other	<u>14,859</u>	<u>-</u>	<u>39,265</u>	<u>1,534</u>	<u>20,678</u>	<u>76,336</u>
Total revenue	17,788	-	42,060	2,482	31,393	93,723
Expenditures						
Recreational and cultural:						
Materials	98	-	40,800	3,986		44,884
Facilities management	-	-	-	-	76,381	76,381
Other	25,130	-	7,497		30,807	63,434
Capital outlay	<u>8,175</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>213,465</u>	<u>221,640</u>
Total expenditures	<u>33,403</u>	<u>-</u>	<u>48,297</u>	<u>3,986</u>	<u>320,653</u>	<u>406,339</u>
Excess of Revenue Over Expenditures	(15,615)	-	(6,237)	(1,504)	(289,260)	(312,616)
Other Financing Sources (Uses)						
Operating transfer in	-	-	-	-	420,000	420,000
Operating transfer out	<u>(22,355)</u>	<u>(8,069)</u>	<u>(14,500)</u>	<u>(5,854)</u>	<u>-</u>	<u>(50,778)</u>
Total other financing sources (uses)	<u>(22,355)</u>	<u>(8,069)</u>	<u>(14,500)</u>	<u>(5,854)</u>	<u>420,000</u>	<u>369,222</u>
Net Change in Fund Balance	(37,970)	(8,069)	(20,737)	(7,358)	130,740	56,606
Fund Balance - Beginning of year	<u>166,261</u>	<u>8,069</u>	<u>82,343</u>	<u>30,501</u>	<u>378,795</u>	<u>665,969</u>
Fund Balance - End of year	<u>\$ 128,291</u>	<u>\$ -</u>	<u>\$ 61,606</u>	<u>\$ 23,143</u>	<u>\$ 509,535</u>	<u>\$ 722,575</u>